

20 August 2016

Briefing:

The growing Housing Benefit spend in the private rented sector

Summary of key points:

This briefing examines the reasons and factors behind the recent growth in Housing Benefit expenditure in the private rented sector. In summary:

- The number of private renters in receipt of Housing Benefit has increased by 42% in the last seven years.
- Today, one in three (32%) Housing Benefit recipients are private renters.
- Almost half (47%) of all private rented households in receipt of Housing Benefit are in work.
- Housing Benefit awards in the private rented sector are 23% higher than in the social rented sector.
- An average private rented household receives ~£1,000 more over the course of a year than a social rented household, rising to £3,300 in London. In total this means an additional spend of ~£1.5bn per year.
- Private renters not only receive higher levels of Housing Benefit, they also live in homes that are of lower quality than social rented homes.

1. Introduction

Over the last 10 years, Housing Benefit expenditure in Britain has increased substantially in real terms, rising from £17.4bn in 2004/05 to £24.7bn in 2014/15, which represents an increase of 42% (DWP 2016).

Housing Benefit expenditure has also increased as a proportion of overall benefit expenditure, today accounting for 14% of the total benefit bill (DWP 2016). This growth has mainly been fuelled by a growing number of private renters, many of them in work, receiving Housing Benefit.

This briefing sets out to explore the main factors behind this recent growth and suggests that investing in building new affordable homes is a better alternative to saving public money in the long term.

2. The number of private renters receiving Housing Benefit has been increasing

The years following the financial crisis of 2008 have not only seen a rapid increase in private renters but also a strong increase in Housing Benefit spend supporting households renting privately.

The number of private rented households in England went up from around 3 million in 2008/09 to 4.3 million in 2014/15, representing an increase of 39% (EHS 2008/09 and 2014/15). In the same period, the number of private renters in receipt of Housing Benefit (in Britain) has increased from just over 1 million to ~1.5 million – a rise of 42%.

Table 1. Changes in Housing Benefit claims in Britain between 2008 and 2016

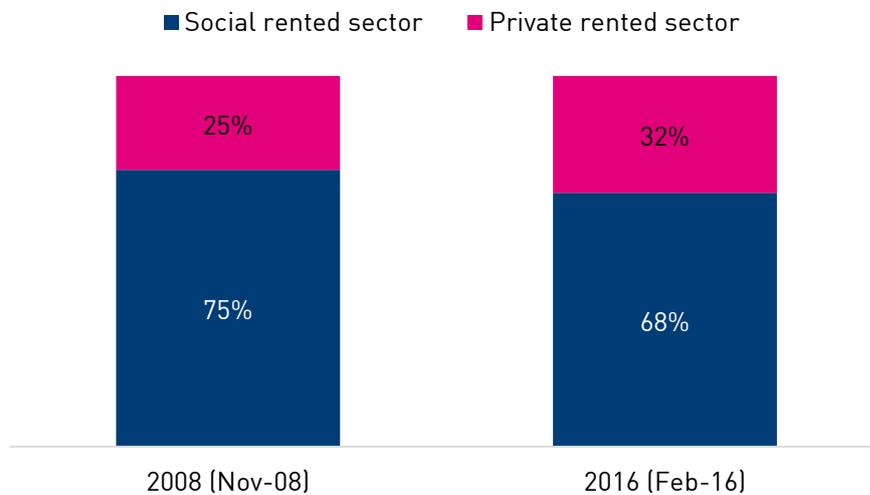
	Number of Housing Benefit claimants in 2008 (November 2008)	Number of Housing Benefit claimants in 2016 (February-2016)	Increase	Increase (%)
Social rented sector	3,109,374	3,235,679	126,305	4%
Private rented sector	1,054,810	1,492,861	438,051	42%

Source: DWP, StatXplore.

This rapid increase in private renters reliant on Housing Benefit has considerably shifted the proportions of this subsidy going into the private rented sector and the social rented sector.

In 2008, one in four (25%) of all Housing Benefit recipients were private renters. Today, it is almost one in three (32%).

Figure 1. Housing Benefit: changing tenure distribution in Britain (number of households)



Source: DWP, StatXplore Feb 2016.

This shift towards the private rented sector is costly, as private renters in receipt of Housing Benefit on average receive higher Housing Benefit payments than social renters. This is mainly due to significantly higher rent levels in the private rented sector, compared to the social sector.

3. Housing Benefit in the private rented sector is more expensive than in the social rented sector, especially in London and the South East, where private rents are high

The average Housing Benefit award of a private renter is almost a quarter (23%) higher than the average award in the social rented sector.

While a private rented household receives £110 per week on average, social renters receive £89 – £21 more per week – amounting to more than £1,000 extra over the course of a year (£5,705 in the private rented sector compared to £4,638 in the social rented sector).

With approximately 1.5 million private rented sector households receiving Housing Benefit, this means that, in total, there is an additional £1.5bn going into the private rented sector, compared to how much it would cost per year if the same amount of people were housed in the social rented sector. But there is also a strong regional dimension to this.

Figure 2. Average weekly Housing Benefit award in Britain

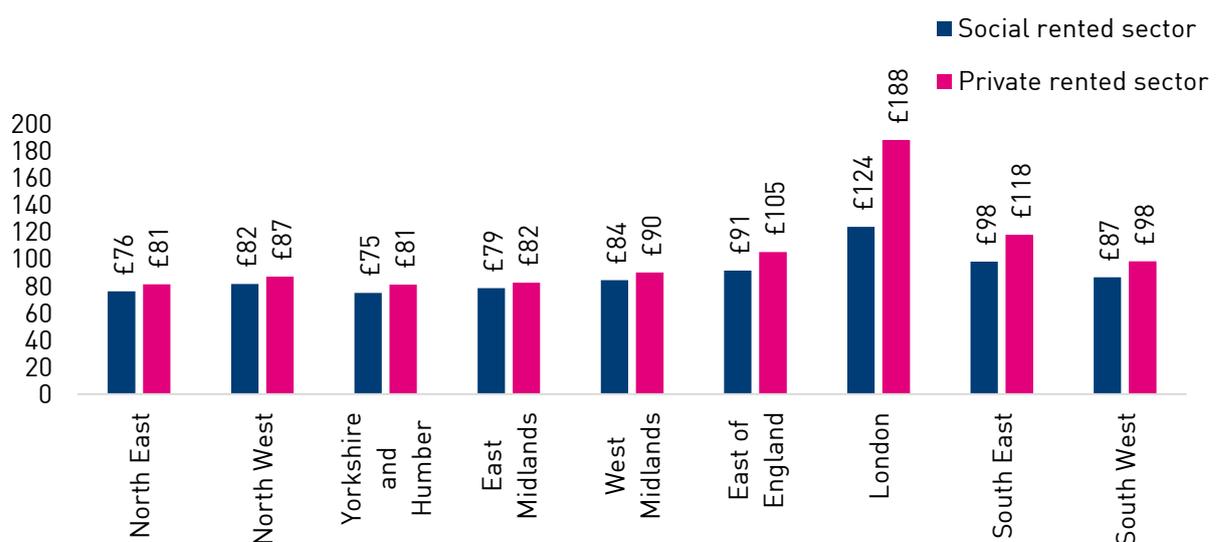


Source: DWP, StatXplore, Feb 2016.

While the average Housing Benefit award in the private rented sector is higher across all English regions, the biggest differences between Housing Benefit spend in the social rented sector and the private rented sector are in London and the South East, where private rents are far above social rents.

For example, in London, the average weekly Housing Benefit award in the private rented sector amounts to £188, which is £64 more than in the social rented sector. Over the course of a year this means that a private rented sector household in receipt of Housing Benefit in London requires £3,328 more than if the same household lived in a social rented home.

Figure 3. Housing Benefit: average weekly award by region (England)



Source: DWP, StatXplore, Feb 2016.

Contact name: Gerald Koessl
 Job title: Research Officer
 Direct line: 020 7067 1114
 Email: Gerald.koessl@housing.org.uk

Lion Court
 25 Procter Street
 London WC1V 6NY
 info@housing.org.uk:
 www.housing.org.uk

4. A growing number of private renters, many paying expensive private rents, have inflated the Housing Benefit bill

The large number of new households now renting privately in receipt of Housing Benefit has inflated the total expenditure on Housing Benefit. Higher rent levels in the private rented sector, compared to the social rented sector, have had a disproportionate impact on the rising Housing Benefit bill. In the last year (2014/15), private renters in Britain received £9.3bn in Housing Benefit which, real terms, is about double what private renters received 10 years ago (in 2005/06).

Table 2. Housing Benefit expenditure in Britain (in real terms, 2016/17 prices)

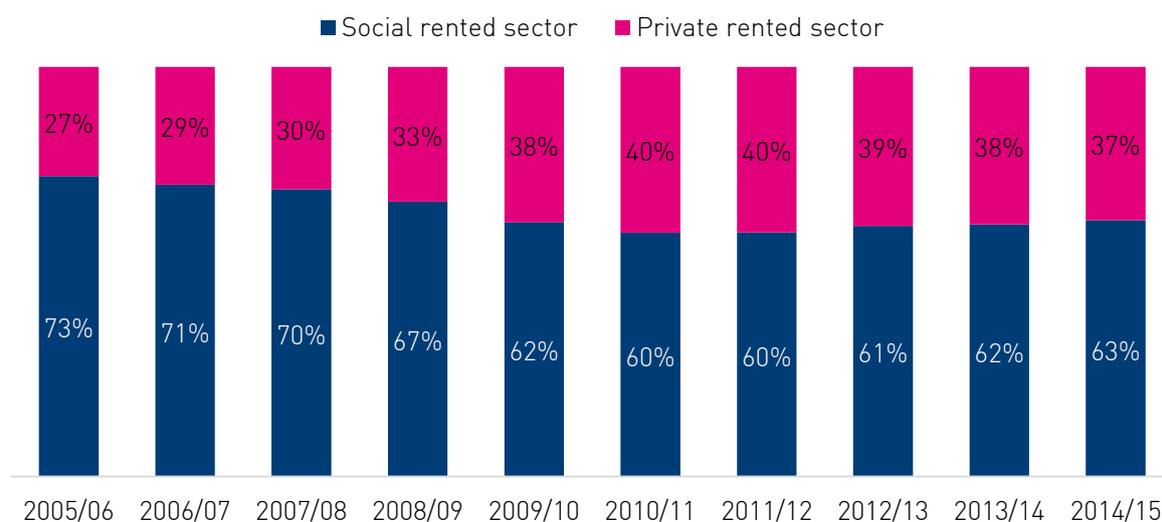
	2005/06	2014/15	Increase
Social rented sector	£12.8bn	£15.5bn	21%
Private rented sector	£4.6bn	£9.3bn	99%
Total	£17.4bn	£24.7bn	42%

Source: DWP 2016.

As a result, the proportion of Housing Benefit expenditure going into the private rented sector has changed. Over the last 10 years the proportion of Housing Benefit going into the private rented sector has increased from 27% in 2005/06 to 40% in 2010/11, before dropping again slightly thereafter to the current level of 37% (£9.3bn) of the total spend of 24.7bn.

Over this 10-year period private rented households in Britain have received a total of £78.3bn (in real terms, 2016/17 prices) in Housing Benefit.

Figure 4. Housing Benefit expenditure in Britain, by tenure



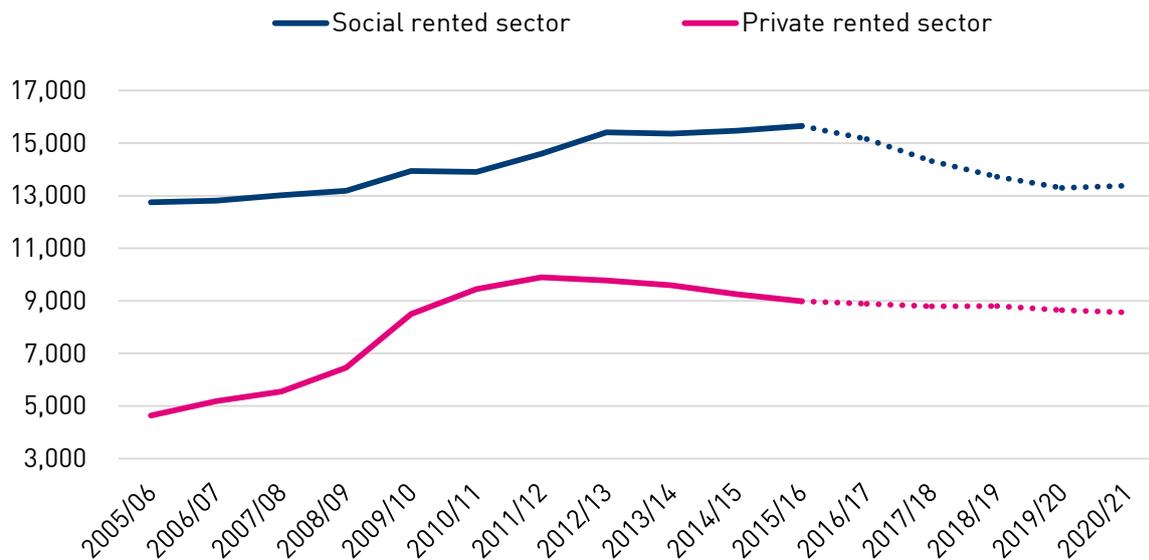
Source: DWP Budget 2016.

Contact name: Gerald Koessler
 Job title: Research Officer
 Direct line: 020 7067 1114
 Email: Gerald.koessler@housing.org.uk

Lion Court
 25 Procter Street
 London WC1V 6NY
 info@housing.org.uk
 www.housing.org.uk

Housing Benefit spend in the private rented sector has grown particularly fast in the aftermath of the financial crisis of 2008, reaching its peak in 2011/12, before decreasing thereafter. The Department for Work and Pension (DWP) forecasts show that Housing Benefit spend in the private rented sector is expected to stabilise at around £9bn annually over the next five years.

Figure 5. Housing Benefit expenditure in Britain, outturn and forecast



Source: DWP, Budget 2016, in £m (real prices 2016/17).

However, despite this stabilisation of Housing Benefit spend in the private rented sector, billions of pounds worth of savings could be achieved if the same households lived in social rented homes. For example, looking at the last seven years (March 2009 to February 2016), if all private renters currently receiving Housing Benefit were living in social rented homes, the Housing Benefit bill would have been £15.6bn lower (cumulatively, in real terms).

This equals an average saving of £2.2bn per year, an amount that could be invested into building thousands of new affordable homes. This would not only lower the Housing Benefit bill, but also have a range of positive knock-on effects on the wider economy.

Moreover, private renters not only pay higher rents and hence require higher levels of Housing Benefit, they also live in homes that are of lower quality than social rented homes, as [our report on housing stock](#) has shown. This report demonstrates that private rented homes are more often located in poor-quality neighbourhoods, require higher levels of investment to maintain, and rank far below social rented homes when it comes to energy efficiency.

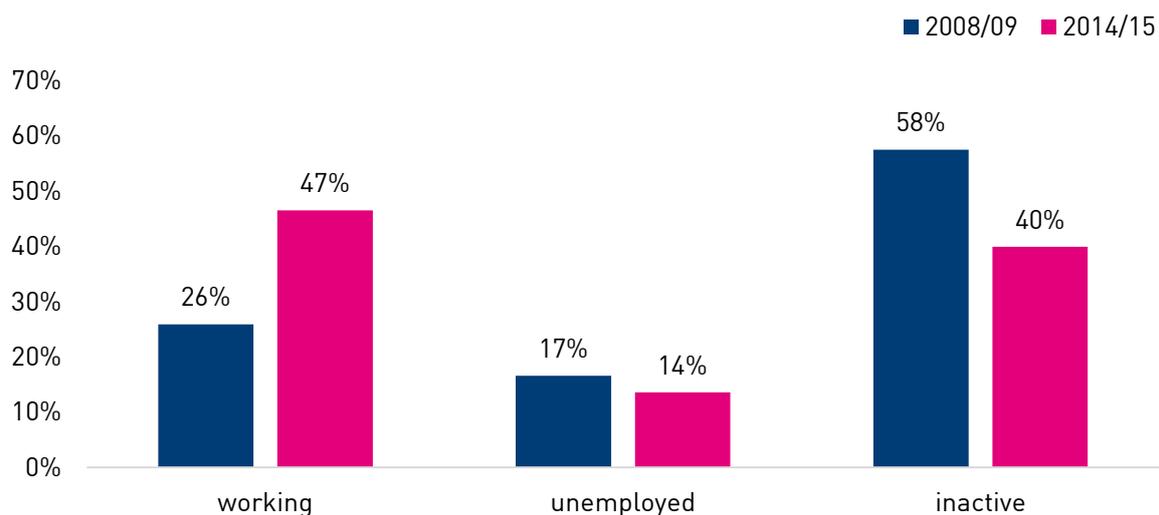
5. An increasing number of private renters in work are unable to afford their rent and receive Housing Benefit

Not only are there now more households living in the private rented sector in receipt of Housing Benefit but the composition of these households has also changed.

Crucially, there are many more working private renters in receipt of Housing Benefit than there were six years ago. In fact, almost every second private rented household (47%) receiving Housing Benefit today is in work (either full time or part time), compared to around a quarter in 2008/09.

In absolute figures this amounts to more than half a million private rented households.

Figure 6. The changing composition of private renters in receipt of Housing Benefit in England - working status of HRP¹



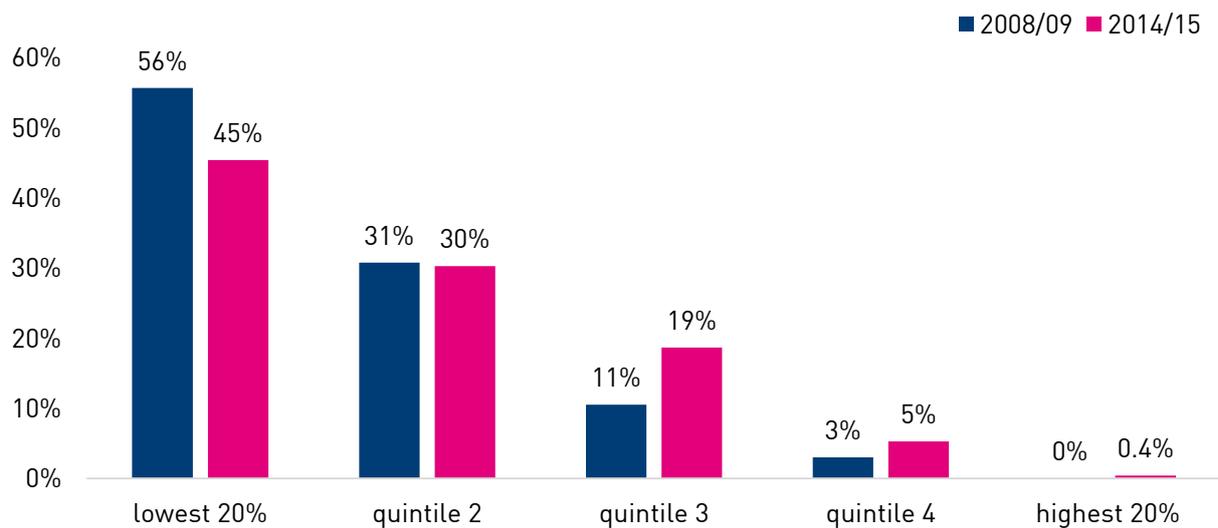
Source: EHS 2008/09 and 2014/15.

This shift towards working private renters having to claim Housing Benefit is also reflected in the income distribution. While the vast majority of private rented households receiving Housing Benefit are still those in the lowest income groups (quintiles*), there has been a rise in the proportion of middle-income households receiving Housing Benefit. Specifically, the strongest increase in Housing Benefit claimants has been among households with net incomes between ~£20,000 and £28,000 per year, rising from 11% in 2008/09 to 19% in 2014/15.

¹ Household Reference Person (HRP): the person in whose name the dwelling is owned or rented or who is otherwise responsible for the accommodation. In the case of joint owners and tenants, the person with the highest income is taken as the HRP (Source: EHS 2013/14).

Put differently, the average private rented household in receipt of Housing Benefit today has a net annual income (£15,000), which is around £4,000 higher than it was in 2008/09.

Figure 7. The changing composition of private renters in receipt of Housing Benefit – household income²



Source: EHS 2008/09 and 2014/15.

Table 3. Average net annual income² of households in receipt of Housing Benefit (excluding benefit payments)

	2008/09	2014/15
Social rented sector	9,851	12,305
Private rented sector	10,824	14,656

Source: EHS 2008/09 and 2014/15.

² Household Income – quintile ranges: (EHS, Basic Income = annual net household income of household reference person + partner, excl. benefits). Source: EHS 2014/15.

References

- English Housing Survey (EHS) 2008/09 and 2014/15, available via: UK Data Services, <https://discover.ukdataservice.ac.uk>.
- Department for Work and Pensions, Stat-Xplore, available via: <https://stat-xplore.dwp.gov.uk>.
- Department for Work and Pensions (DWP), 2016: Benefit expenditure and caseload tables 2016, available at: www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2016.
- UK Housing Review 2016, Chartered Institute of Housing. Steve Wilcox, John Perry, Mark Stephens and Peter Williams.

* Household income – quintile ranges using EHS Basic Income definition (=annual net household income of household reference person + partner, excl. benefits)

	Minimum	Maximum
lowest 20%	below	12,495
quintile 2	12,502	19,649
quintile 3	19,662	28,119
quintile 4	28,125	40,551
highest 20%	40,567	or more